

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-01

PA-01 PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 7438

C O N F I D E N T I A L BONN 01153

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN BANKING REFORM

REF: BONN 14251 OF SEPTEMBER 9, 1974

1. WE ARE TOLD CONFIDENTIALLY THAT THE FINANCE MINISTRY HAS NOW ABANDONED ITS PROPOSAL FOR THE FULL INSURANCE OF ALL PUBLIC AND INTERBANK BANK DEPOSITS AND THE LIQUIDATION OF BANKRUPT BANKS BY A NEW LIQUIDATION AGENCY WHICH WOULD DO SO IN AN ORDERLY FASHION AND WITHOUT LOSS TO ANY CREDITOR. (SEE PARA 5 REFTEL).

2. INSTEAD THE FINANCE MINISTRY NOW PLANS TO PROPOSE A FEDERAL LAW WHICH REQUIRES BANKS AS A CONDITION FOR RECEIVING PUBLIC (I.E., NOT INTERBANK) DEPOSITS TO BE A MEMBER OF AN INSURANCE SCHEME WHICH MEETS CRITERIA TO BE LAID DOWN IN THE LAW. THE PRESENT INSURANCE AND AID SCHEMES OF THE SAVINGS BANKS ALREADY MEET THE CRITERIA WHICH THE FINANCE MINISTRY HAS IN MIND. DISCUSSIONS ARE NOW GOING ON WITH THE  
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FEDERATION OF PRIVATE BANKS IN ORDER TO CHANGE THE

INSURANCE SCHEME (THE SO-CALLED FIRE BRIGADE FUND) OF THAT ORGANIZATION TO BRING IT IN LINE WITH THE CRITERIA DESIRED BY THE FINANCE MINISTRY. THE PLAN IS TO EXTEND THE COVERAGE OF THE PRESENT INSURANCE SCHEME TO ALL BANK DEPOSITS FROM THE PUBLIC WITHOUT ANY MAXIMUM LIMITATION(BUT EXCLUDING FROM THE INSURANCE ALL INTER-BANK DEPOSITS. IN ORDER TO FINANCE THE SCHEME THE FEDERATION OF PRIVATE BANKS WOULD CHARGE AN ANNUAL PREMIUM TO PARTICIPATING BANKS WHICH WOULD BE CALCULATED AS A PERCENTAGE OF THE INSURED DEPOSITS. IF AFTER FIVE YEARS, PREMIUM RECEIPTS HAD BUILT UP A SUFFICIENT RESERVE NO NEW PREMIUMS WOULD BE CHARGED UNTIL THE RESERVE FUND WAS DEPLETED. IF THE RESERVE FUND AT ANY TIME HAD TO MEET INSURANCE CLAIMS BEYOND ITS SIZE, IT WOULD DO SO BY BORROWING WHICH SUBSEQUENTLY WOULD BE REPAID OUT OF PREMIUM RECEIPTS.

3. THE ABOVE PROPOSAL WOULD COMPLETE THE GERMAN BANKING REFORM FOLLOWING THE HERSTATT CLOSURE. THE LIQUIDITY BANK (SEE BONN 14502) AND THE LIMITATION ON BANKS' OPEN FOREIGN EXCHANGE POSITIONS ARE ALREADY IN PLACE (BONN 13847) AND THE DRAFT LAW LIMITING LARGE LOANS (SEE BONN 19802) IS NOW BEFORE PARLIAMENT. THE NEWLY PLANNED INSURANCE SCHEME WOULD MEET ONE OF THE PRINCIPAL OBJECTIONS THAT AMERICAN BRANCHES IN THE FEDERAL REPUBLIC HAVE HAD TO THE PRESENT FIRE BRIGADE FUND SINCE IT WOULD BASE PREMIUMS ON THE AMOUNT OF INSURED DEPOSITS RATHER THAN THE BALANCE SHEET TOTALS OF THE INSURED BANK.  
HILLENBRAND

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## Message Attributes

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